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SHERITT

Contents

AR22

Second  
Quarter

\$ 9,840 \$

2,561

740

161

13,302

1,967

946

288

37

538

5,114

8,890

4,412

78,019

\$ 82,431



Sherritt Gordon  
P.O. Box 28, Com  
Toronto, Canada N



Consolidated Statement  
of Earnings

For the Second Quarter  
and Six Months Ended June 30, 1979  
with 1978 figures for comparison  
(thousands of dollars)

		1979		1978	
		Second Quarter	Six Months	Second Quarter	Six Months
Gross income					
	Metal sales	\$ 51,586	\$ 113,098	\$ 42,470	\$ 91,438
	Fertilizer and chemical sales	20,294	30,348	17,675	28,390
	Technology licensing and other income	942	1,716	447	987
		72,822	145,162	60,592	120,815
Costs and Expenses					
	Operating costs	52,046	103,581	48,922	99,501
	Technology	(1,194)	(1,199)	322	634
	Exploration	481	695	163	327
	Selling and administrative	1,388	2,638	991	2,105
	Interest	1,130	2,254	834	1,679
	Depreciation and amortization	2,561	5,498	3,062	5,922
	Foreign exchange loss — net	68	325	259	259
		56,480	113,792	54,553	110,427
Earnings Before Taxes		16,342	31,370	6,039	10,388
	Income and mining taxes — current	5,762	11,214	713	1,746
	— deferred	740	1,166	1,915	2,640
		6,502	12,380	2,628	4,386
Net Earnings		\$ 9,840	\$ 18,990	\$ 3,411	\$ 6,002
Earnings Per Share		\$ .77	\$ 1.49	\$ .27	\$ .47
Dividends Per Share		\$ .40	\$ .40	\$ —	\$ —

This statement is subject to year-end audit.

Consolidated Statement  
of Changes in  
Financial Position

For the Second Quarter  
and Six Months Ended June 30, 1979  
with 1978 figures for comparison  
(thousands of dollars)

		1979		1978	
		Second Quarter	Six Months	Second Quarter	Six Months
Working capital was obtained from					
Operations for the period					
	Net earnings	\$ 9,840	\$ 18,990	\$ 3,411	\$ 6,002
	Items not affecting working capital				
	Depreciation and amortization	2,561	5,498	2,756	5,541
	Deferred income taxes	740	1,166	1,915	2,640
	Foreign exchange loss	161	286	259	259
		13,302	25,940	8,341	14,442
Working capital was used for					
Expenditures on capital and deferred assets					
	Mining	1,967	5,321	5,489	9,884
	Refining and fabricating	946	1,298	126	193
	Fertilizer	288	406	742	1,702
	Research and patents	37	62	158	211
	Employee housing, loans and investments	538	785	223	423
	Dividends	5,114	5,114	—	—
		8,890	12,986	6,738	12,413
	Increase in working capital	4,412	12,954	1,603	2,029
	Working capital at beginning of the period	78,019	69,477	70,626	70,200
	Working capital at end of the period	\$ 82,431	\$ 82,431	\$ 72,229	\$ 72,229

This statement is subject to year-end audit.

AR22



Sherritt Gordon  
Mines  
Limited

Second Quarter  
Report to  
Shareholders  
1979



Sherritt Gordon Mines Limited  
P.O. Box 28, Commerce Court West  
Toronto, Canada M5L 1B1





Report for the Second Quarter  
1979

Earnings for both the second quarter and the first half of 1979 were at record levels. In the second quarter, earnings per share were 77¢ compared to 27¢ in the second quarter of 1978 and 72¢ in the first quarter of 1979. Earnings for the first half of the year were \$1.49 per share, a substantial improvement over the 47¢ per share earned in the first half of 1978.

During the first half of 1979, profits from all operating divisions improved over last year. For the Mining Division this was mainly because of higher sales prices for copper, zinc, gold and silver, for the Refining Division because of the dramatic rise in the cobalt price, and for fabricated metal products because of greatly increased volumes. Most of our operations continued to benefit from the lower value of the Canadian dollar.

Comparative results (thousands of dollars) for the second quarter and the year to date on a consolidated basis are set forth below:

	1979		1978	
	Second Quarter	Six Months	Second Quarter	Six Months
Gross income	\$ 72,822	\$ 145,162	\$ 60,592	\$ 120,815
Costs and expenses	56,480	113,792	54,553	110,427
Earnings before taxes	16,342	31,370	6,039	10,388
Income and mining taxes	6,502	12,380	2,628	4,386
Net earnings	\$ 9,840	\$ 18,990	\$ 3,411	\$ 6,002
Earnings per share	\$ .77	\$ 1.49	\$ .27	\$ .47
Dividends per share	\$ .40	\$ .40	\$ —	\$ —

Total sales revenue in the first half of 1979 was 20% above the previous record level achieved during the first six months of 1978. Metal sales revenue rose by 24% as a result of higher prices and increased sales of fabricated metal products. Fertilizer and chemical sales revenue rose by 7% due to higher prices. We have now increased our fertilizer sales in western Canada to 75% of our production with the balance going to the western U.S.A.

During the second quarter the tightness in the copper and zinc markets eased somewhat. The ending of the strike at Inco's Sudbury plants and at Noranda's Gaspé operation, together with fears of recession, drove down the LME copper price from 96¢ U.S. per pound to 81¢ U.S. The European zinc price of \$845.00 U.S. per metric ton is being discounted and, with anticipated weaker consumption in the second half, zinc prices in North America could come under pressure. For nickel, the strike at Inco removed surplus metal from the market and, as a result, during the second quarter, producer prices climbed in three steps from \$2.25 U.S. per pound to \$3.00 U.S. Recession fears have lowered the free market

price to \$2.70 U.S. in Europe and \$2.80 in the U.S.A. For cobalt, the producer price remained at \$25.00 U.S. per pound but the free market price declined from \$40.00 U.S. to \$30.00 U.S. The high price of cobalt has led to an appreciable amount of substitution. Precious metals climbed to new highs driven by the expectation of continuing inflation.

The Mining Division operated at a small loss during the second quarter. A three-week strike during June, along with a slow startup of Ruttan underground operations, resulted in a substantial shortfall in mine production. Including a downward adjustment relating to first-quarter production, our estimated average sales price for copper for the quarter was 86¢ Canadian.

On May 31, hourly-rated employees in the Manitoba mining operations rejected a proposed labour agreement by the narrow margin of 35 votes. The proposal was the result of over six weeks of negotiations with the United Steelworkers of America and had been unanimously recommended to the membership by the Union negotiating committee. As a result of the rejection, strike action commenced June 1 and continued to June 22, on which date a second vote was held on a revised proposal. This proposal was ratified by 73% of the members who cast ballots. The three-year agreement provides improvements in wages and fringe benefits which make Sherritt fully competitive in the Manitoba mining industry.

At Ruttan Mine 485,000 tons of ore grading 1.42% copper and .80% zinc were milled during the quarter. Pit production was increased to offset the underground shortfall and this caused waste stripping to fall behind schedule. The pit-underground drainage system was commissioned and now functions very effectively. One large drill and electric shovel were removed from the pit operation and have been sold. Production from underground increased in the second quarter and during the month of May the mining of 36,400 tons was 96% of target. The grade of underground ore from the first stope has averaged 3.28% copper to date, slightly higher than originally forecast. By June 1, a total of 350,000 tons had been drilled off in this and the adjacent stope. Because of the strike and a shortage of experienced miners, underground development has fallen behind schedule. Shaft deepening below the 1000 level has been slow because of extensive preparatory work, a shortage of shaft miners and delays caused by the strike. Mill operations were generally satisfactory although zinc metallurgy was badly affected by very low grades and an unfavourable copper-zinc ratio.

At Fox Mine 163,000 tons of ore grading 1.43% copper and 1.43% zinc were milled during the quarter. The copper grade

improved over the first quarter primarily due to material mined on the 400 and 2400 levels. Blasthole drilling, development and stope filling all fell behind schedule because of the strike. The deep drilling results from the 2500 level have not been encouraging. Of the three holes completed in the second quarter, only one narrow intersection of ore grade was found near the 3600 level. However, exploration drilling on the 2100 level in the west lens has indicated good potential for mineable grades and tonnage. In the mill, copper metallurgy was disappointing and recoveries were down about 2% from forecast; on the other hand, zinc metallurgy was generally satisfactory. By the end of June, overall operations at Fox had returned to normal, with less-than-anticipated disruption caused by the strike.

The Refining Division again showed an improved profit because of the strong cobalt market and the substantial improvement in the nickel price. Nickel production was 7,607,000 pounds, slightly below the first quarter but 6% above the second quarter of 1978. The maintenance shutdown scheduled for May was cancelled and the summer shutdown, which started June 24, was trimmed back from five to three weeks because of the improved nickel market. Cobalt production during the second quarter increased to a record 324,000 pounds, which is 9% over both the first quarter of this year and the second quarter of 1978. The improvements made in the cobalt refining facilities during the past few months will certainly allow us to attain a record production of cobalt in 1979.

Production of fabricated metal products during the second quarter was maintained at the high level of 1,952,000 pounds. Although this was about 20% below the first quarter because of a reduced volume of nickel strip for the Royal Canadian Mint, it is still over three times higher than production in the second quarter of 1978. Nickel strip for the Royal Canadian Mint, nickel coin blanks for The Netherlands and Hungary, N-B-S coin blanks for Colombia, and a growing demand for cobalt strip represented the major volume of business in the rolling mill. Additional orders on hand will assure a high level of production in the rolling mill throughout most of this year.

Because of a late spring on the Prairies there was a very short shipping season and for the first time in several years we were not completely sold out of fertilizers. Production of nitrogen fertilizers in the second quarter was 60,000 tons, 11,000 tons below the production in the first quarter because of a scheduled maintenance shutdown of the ammonia and urea plants during June. Extensive repair work was done during this shutdown to bring these plants into good working

condition. Phosphate production was 31,000 tons, about 3,000 tons less than that achieved in the first quarter.

There has been a growing interest in Sherritt's pressure leaching process for zinc sulphides following Cominco's announcement in April that they are proceeding with a commercial-scale installation. We are now studying specific applications of this process for six companies including two within Canada.

Nickel production at the Nonoc Island refinery of Marinduque Mining & Industrial Corporation in the Philippines was 11,825,000 pounds compared to 11,957,000 pounds produced during the first quarter of 1979. Production of cobalt in mixed sulphides was maintained at a high level of 745,000 pounds compared to 740,000 produced in the first quarter. This project is continuing to make a substantial contribution to Marinduque's profits. An annual plant overhaul is scheduled for the early part of July.

During the second quarter Sherritt acquired an equity interest in BowRio Resources Limited, a Calgary-based oil and gas company formed in 1978. In addition to our equity position, which can be increased to 30% by exercising a future option, we plan to provide one-third of the funds for a joint venture oil and gas exploration program in western Canada to be managed by BowRio. On an annual basis this will initially involve exploration expenditures of about \$2,000,000. Sherritt is currently a substantial gas consumer at its facilities in Fort Saskatchewan, Alberta. With a major expansion of our nitrogen fertilizer operations under study, natural gas becomes an even more important factor in our future operations. Entry into oil and gas exploration is a logical step and this new business should, in future, play a significant part in our activities in western Canada.

David D Thomas

David D. Thomas, President.

July 17, 1979.



# Sherritt Gordon Mines Limited

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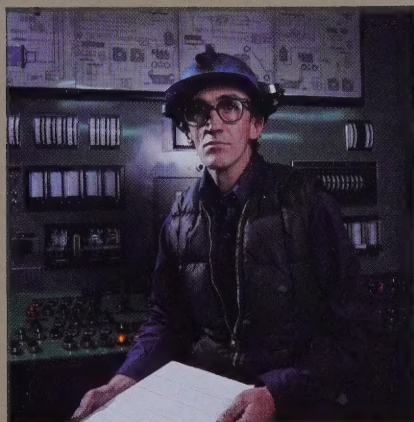
## 1979 at a Glance

(figures in thousands except per share figures and employees)

	1979	1978
Net earnings for the year	\$ 40,966	\$ 14,425*
Net earnings per share	\$ 3.20	\$ 1.13*
Dividends per share	\$ 1.20	\$ .50
Working capital	\$ 92,895	\$ 69,463
Capital expenditures	\$ 16,115	\$ 26,892
Revenue		
Metal sales	\$ 245,020	\$ 179,982
Fertilizer and chemical sales	55,328	49,247
Technology licensing, interest and other income	4,226	2,150
Total revenue	\$ 304,574	\$ 231,379
Copper sales (lb.)	74,968	73,959
Zinc sales (lb.)	56,518	82,113
Gold sales (oz.)	17	19
Silver sales (oz.)	406	473
Nickel sales (lb.)	25,491	22,718
Cobalt sales (lb.)	583	1,381
Fabricated metal products sales (lb.)	7,410	5,389*
Fertilizer sales (tons)	440	448
Employees	2,277	2,157

\* figures restated to conform to the presentation adopted in 1979.

Annual Meeting  
2:30 p.m., Friday, April 18, 1980  
Commerce Hall, Commerce Court  
Toronto, Ontario



**Larry Dalsto, mill  
superintendent, Fox  
Mine**



It's a great pleasure to report that 1979 was the most profitable year in Sherritt's 52-year history. From record net earnings of \$40,966,000 (\$3.20 per share), we paid dividends of \$15,360,000 (\$1.20 per share) to shareholders. Even in terms of constant dollars, 1979 earnings were about 15% above the previous peak years of 1973 and 1974. Total revenue was a record \$305,000,000.

Higher sales prices for all products, a favourable rate of exchange on the Canadian dollar, and increased production in our refining and fabricating operations contributed to the growth in sales and earnings. All divisions showed improved earnings.

The six metals that Sherritt mines or refines are copper, nickel, zinc, cobalt, gold and silver. The markets for our two major products, copper and nickel, strengthened significantly during 1979, with world inventories for both metals returning to a near-normal level by year end. The price of copper rose from 75¢ U.S. per pound to \$1 U.S. during the year, while the free-market price for nickel moved from about \$1.75 U.S. per pound to \$3 U.S. The zinc market, after showing some weakness at mid-year, appears to have stabilized at 37.5¢ U.S. per pound. The premium on the free-market price for cobalt disappeared in the last half of the year but the producer price remained at the high level of \$25 U.S. per pound.

Amid growing fears of continued inflation, speculative purchasing caused the prices of gold and silver to skyrocket during the last five months of the year. Gold moved from about \$200 U.S. per ounce at the beginning of the year to nearly \$300 in August; by year end it was over \$500. Silver, which started the year at \$6 U.S. per ounce, moved to about \$9 by August 1 and shot up to over \$25 at year end.

Because of these higher metal prices, our mining division realized the first acceptable profit since 1974. However, sharply increased costs at both mines limited the after-tax profit

to less than 9% of invested capital. Unit operating costs were adversely affected by the three-week strike in June and by the shortfall in underground production at Ruttan, caused by the shortage of experienced personnel.

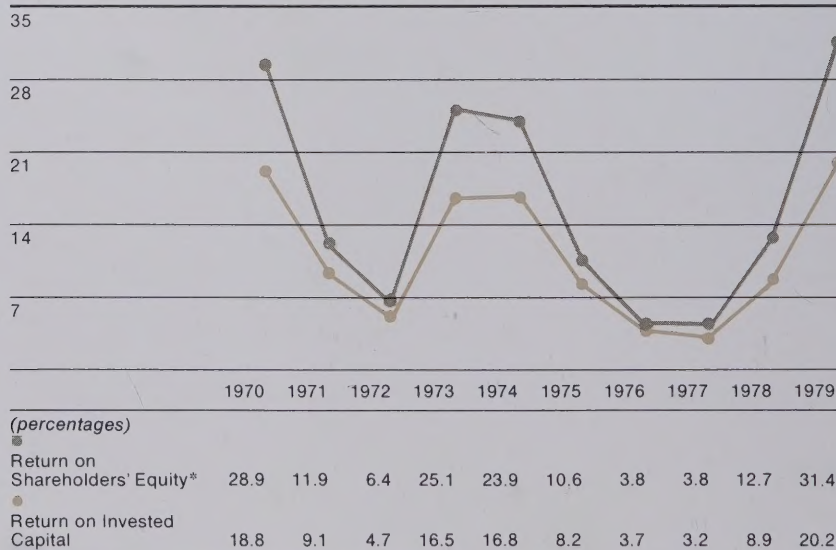
We more than doubled our mining exploration expenditures and concentrated on areas near our existing mines. In December we obtained an option on the low-grade Agassiz gold property near Lynn Lake. In 1980 we will explore and evaluate the property.

Sherritt's refining operations at Fort Saskatchewan had an excellent year. Nickel production increased to over 32,000,000 pounds, the highest level since 1972. We sold everything we produced and, with a rapidly escalating nickel price, profits increased substantially. Cobalt production was at a record high of 1,333,000 pounds and we benefitted from the sale of metal from some low-priced feed acquired in prior years.

Fabricated metal products had a record year, with production reaching 7,327,000 pounds and sales approaching \$35,000,000. There was a very strong demand for nickel strip from the Royal Canadian Mint and for coinage products from a number of overseas customers. Our newly developed Nickel-Bonded-Steel coinage material is being widely accepted and we are building a new \$5,500,000 plant at Fort Saskatchewan to produce N-B-S™ coin blanks on a large scale.

Fertilizer operations continued to make a substantial contribution as sales reached record levels. The market outlook for our fertilizers is exceptionally strong and our limited productive capacity is restricting our participation in existing markets. We are now completing detailed engineering plans for a major expansion and will make a decision on the project in the near future. During the year

#### Return on Shareholders' Equity and Invested Capital



\* figures restated to conform to the presentation adopted in 1979.



we renegotiated our natural gas contract to assure an economic energy source for our existing Alberta facilities to the end of 1983.

Sherritt and five other companies were acquitted on January 18, 1980 of conspiring to prevent, or lessen unduly, competition in the fertilizer industry between 1965 and 1976. The charges were laid in January 1976, under the Combines Investigation Act, after the seizure of over 10,000 documents in 1973 by the combines investigation group of the federal Department of Consumer and Corporate Affairs. The trial in the Supreme Court of Alberta finally ended on November 9, 1979, following 150 days of sittings. It was the longest criminal case in Alberta's history. The trial cost the government and the companies involved millions of dollars. The judge found evidence of keen competition in the industry and considered the companies' witnesses to be credible people whose evidence he accepted. It was rewarding for Sherritt to hear this judgement, for we knew we weren't guilty. We agree with one western newspaper's editorial comment on the case: "Justice has been done, but at a very high price."

Our technology group had a very busy year both in Canada and abroad. There is keen interest in Sherritt's process for direct pressure leaching of zinc concentrate. The first commercial application is being installed at Trail, B.C. by Cominco, and will be in operation in late 1980.

Another highlight of 1979 was the beginning of our venture into oil and gas exploration. We have acquired an equity interest in BowRio Resources Limited and a 30% interest in their exploration program in western Canada. The program has been reasonably successful in drilling, including what might be a significant gas discovery where we have a sizeable land position. Follow-up drilling is planned in 1980. We also have a 20% interest in an exploration program managed by Forest Oil Corporation; this involves some deep drilling in Alberta.

In 1979 Sherritt embarked on a program to centralize all of the company's computer activities. The new corporate computer facility has been established at Fort Saskatchewan and will be fully operational in 1980.

We view 1980 with a fair amount of optimism. All our metal markets have improved since the year end and we expect increased copper grades at both mines. Our fabricated metal products division is fully booked for more than half the current year and, with a buoyant agricultural market in western Canada, the fertilizer business should continue to be good.

The improvement in the prices of our major metals — copper and nickel — since the end of 1979 has surprised us. We expected a recessionary economy in the United States during the latter part of 1979, extending into 1980. While there has been some drop in U.S. domestic consumer buying, the manufacturers in the capital-goods sector appear to have operated at higher levels. In our view, this buying is likely to continue and will support higher prices for copper and nickel in 1980.

The average realized price for copper in January 1980 has been about 17¢ higher than the price used to estimate fourth-quarter sales. As a result, 1980 first-quarter earnings will benefit from a substantial upward adjustment of the final pricing of 1979 copper sales.

Speculative and investor interest in the copper market could lead to extreme price fluctuations in the immediate future. Whether this speculative demand is of long-term consequence cannot yet be assessed. We are concerned that the use of copper as an investment vehicle, with the resulting price instability, may have a detrimental effect on the more normal consumer market. We hope this speculative flurry will not encourage an excess of new production decisions throughout the world nor a further round of

confiscatory tax legislation in Canada.

In late 1979 and early 1980 we obtained substantial orders for nickel. Our nickel inventory is now down to normal levels and we have little metal to sell before early summer of 1980.

Sherritt's production of gold and silver has become a significant part of the earnings of the mining division. In 1979 we recovered about 17,000 ounces of gold and 406,000 ounces of silver. This produced a revenue of \$15,400,000 or 5% of the company's total revenue. In 1980 we expect our gold and silver production to increase and, based on the current speculative prices, our revenue from these precious metals might double.

There should be some closing words of caution for 1980. First, we are faced with the very difficult task of bringing production at the Ruttan underground mine up to a rate of 2,000,000 tons per year by the end of 1980. To date, we have not been able to achieve our targeted underground production figure for any month; however, January 1980 was our best month yet at 72% of target. Second, a substantial portion of the 1979 corporate earnings represented profit on inventories. This happens in periods of rising prices when you value your inventories as we do, on a "first in, first out" basis. This will continue to occur as long as prices continue to rise. But what goes up must also come down; when this happens, we shall suffer a loss on inventories.

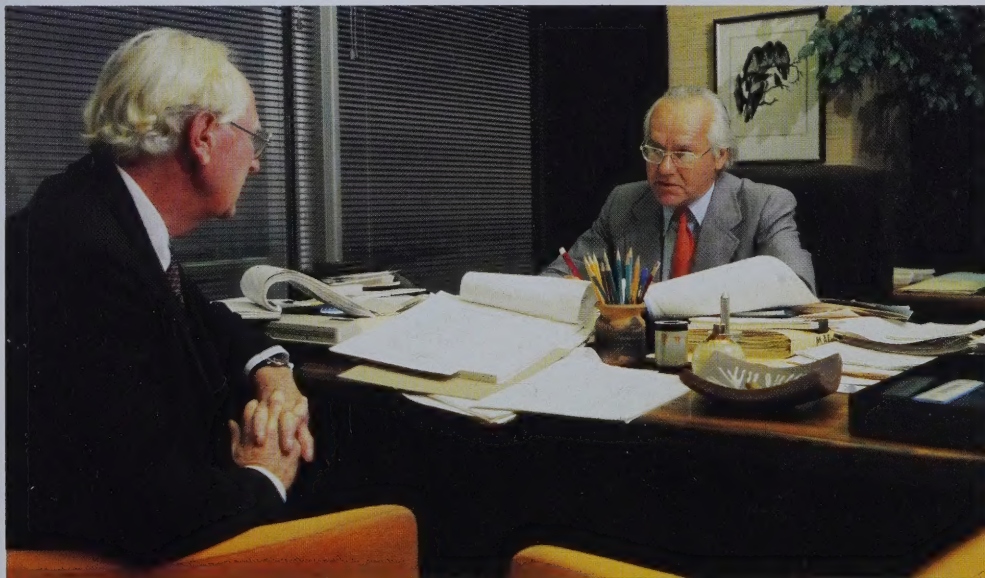
The directors want to acknowledge the fine contribution of all Sherritt employees during the past record year. As always, the success of the company depends to a great extent on the efforts of the people who work for it.

On behalf of the Board of Directors

*David D. Thomas*

David D. Thomas  
Toronto, Ontario

February 1, 1980



**Bill DeRoche, chairman  
of the board  
Dave Thomas, president  
and chief executive  
officer**



It's a commonplace observation in the business world today that carefully planned diversification is a major key to success. At Sherritt we think we've proven the truth of that axiom. Although our corporate name is still Sherritt Gordon Mines Limited, we've become much more than a mining company.

Today we mine copper and zinc, we refine and fabricate nickel and cobalt, we mint coins and medallions, we produce nitrogen and phosphate fertilizers, we provide research, development and consulting services to the metallurgical industry, and we're beginning to venture into the field of gas and oil exploration. Our earnings now come from a range of businesses and products and we are better protected from the extreme cycles that affect all resource-based companies.

And we got into these diversified activities in the most logical way possible, one step at a time.

Sherritt was incorporated in 1927 as a mining company, to work a copper/zinc orebody at Sherridon, Manitoba. Nickel/copper discoveries further north in the province led to the development of a new mine at Lynn Lake in 1953.

In the meantime, a search began for a method of refining nickel that would give better recoveries at lower operating costs than conventional smelting methods. Scientists working for Sherritt came up with an innovative ammonia leaching process to produce pure nickel and cobalt in powder form, without smelting.

This new refining method required large amounts of natural gas, so it made sense to go to the source of the fuel. In 1954 Sherritt opened its processing plant in Fort Saskatchewan, Alberta.

The Lynn Lake nickel mine was worked out a few years ago, and our currently operating mines, Fox and Ruttan, produce only copper and zinc, together with the by-products of gold and silver. But nickel and cobalt still account for a major part of our business; we

continue to refine and fabricate these metals from feed we buy from outside sources.

A major by-product of our refining process is ammonium sulphate, a widely used chemical fertilizer. Not surprisingly, we began to market this useful product. Gradually we added other types of fertilizers, and we now manufacture and distribute a full range of nitrogen and phosphate fertilizers.

Following up on our refining activities, we opened a rolling mill at Fort Saskatchewan, to produce high-quality nickel and cobalt strip. And our nickel strip was ideal material for coinage blanks, so we soon found ourselves literally in the business of making money. We began by selling coinage blanks to the Royal Canadian Mint and later added our own minting facilities. Today we manufacture medallions, tokens and trade dollars, as well as finished coins for legal tender in a number of countries. And, of course, we still produce nickel strip for coinage and other uses.

**Sherritt  
Gordon  
Mines  
Limited**

## Sales Contribution by Segment

(percentages)

### Mining

Copper 26  
Zinc 8  
Precious metals 5

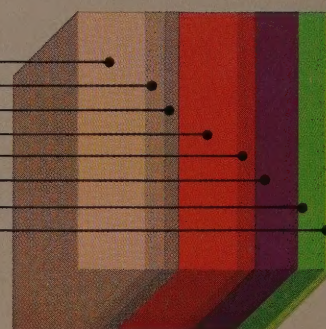
### Metal Refining

Nickel 23  
Cobalt 7

### Fertilizers & Chemicals 18

### Fabricated Metals 11

Technology Licensing,  
Interest and Other  
Income 2

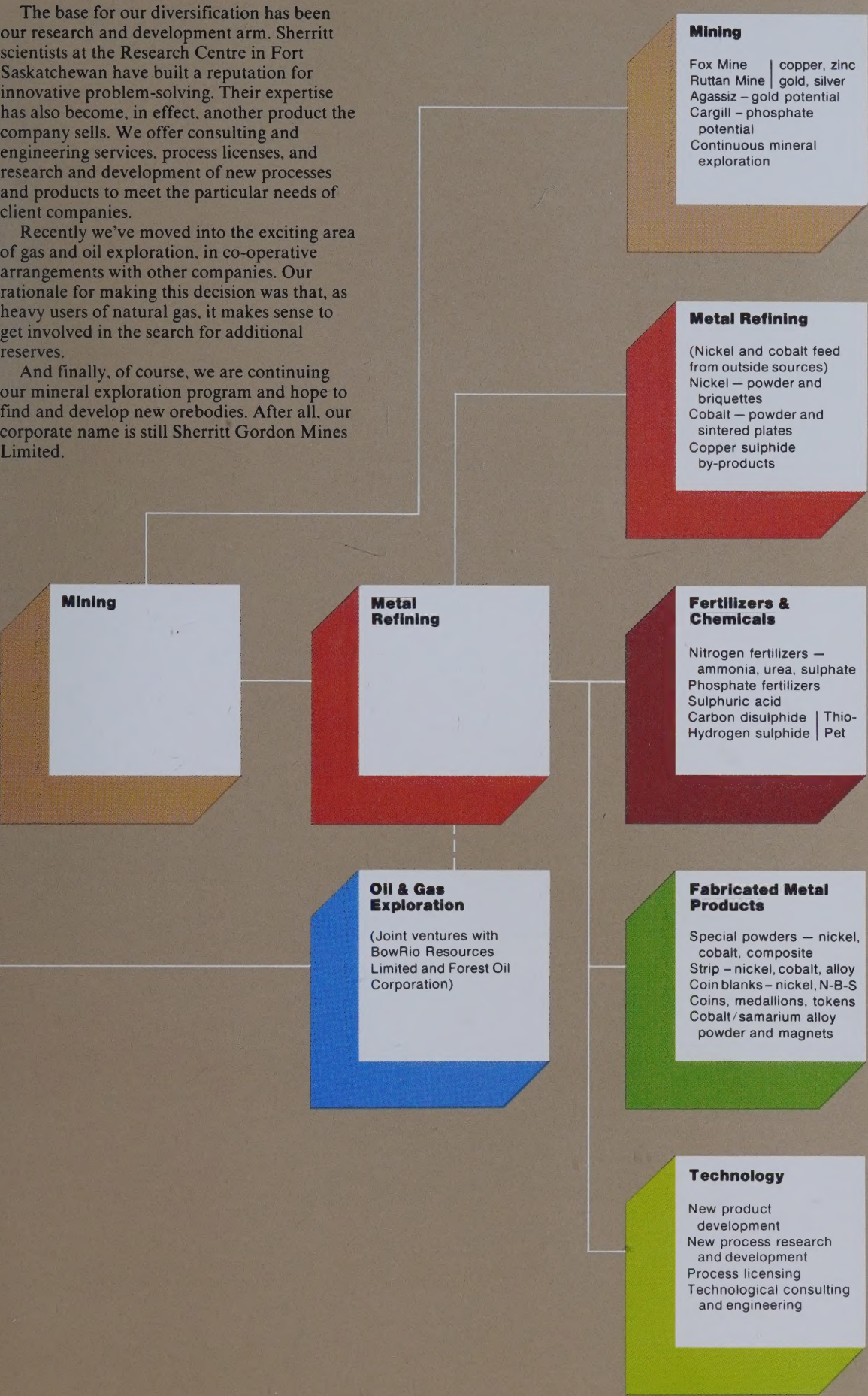




The base for our diversification has been our research and development arm. Sherritt scientists at the Research Centre in Fort Saskatchewan have built a reputation for innovative problem-solving. Their expertise has also become, in effect, another product the company sells. We offer consulting and engineering services, process licenses, and research and development of new processes and products to meet the particular needs of client companies.

Recently we've moved into the exciting area of gas and oil exploration, in co-operative arrangements with other companies. Our rationale for making this decision was that, as heavy users of natural gas, it makes sense to get involved in the search for additional reserves.

And finally, of course, we are continuing our mineral exploration program and hope to find and develop new orebodies. After all, our corporate name is still Sherritt Gordon Mines Limited.



## Mining

## Metal Refining

## Fertilizers & Chemicals

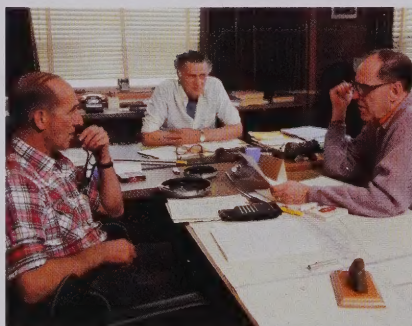
## Fabricated Metal Products

## Technology



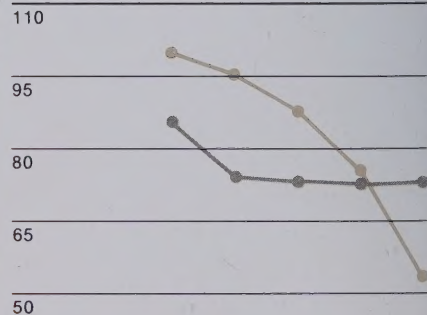


**Eric Cunningham,**  
manager, engineering  
and development, mining  
division  
**Norm Green,** control  
room operator  
**Ken Ball,** mill  
superintendent, Ruttan  
Mine



**Bob McCombe,** mine  
manager, Ruttan Mine  
**Jim MacLellan,** general  
manager, Manitoba  
operations  
**Rollie Bennett,** manager,  
special services, mining  
division

**Concentrate Production  
in Payable Pounds**



(figures in millions)

	1975	1976	1977	1978	1979
● Copper	85.3	74.1	73.0	72.4	73.6
● Zinc	100.0	95.4	87.5	74.7	53.0



## Operations

### Ruttan Mine

In 1979, 2,308,000 tons of ore were milled at Ruttan — a drop of 9% from 1978. This was because of the labour dispute in June and the continuing shortage of skilled manpower. There was a 19% increase of copper head grade and a 25% reduction of zinc grade in the ore treated in 1979. Copper production was below forecast, although higher than in 1978, and zinc production exceeded forecast due to a reduced tonnage of underground ore and a proportional increase of pit ore fed to the mill.

By mid-1980, the remaining pit ore will be exhausted and Ruttan will be a totally underground mine. We have begun blasthole drilling from the pit bottom in the west crown pillar. Ore extracted from this horizontal pillar will be transported to the mill through the underground conveying system. Underground production in 1979 was approximately 50% of forecast. Because of the skilled labour shortage, our development was well behind schedule at mid-year. In the third quarter we brought a mining contractor on site to develop the west crown pillar from the 800 level, and our fourth-quarter mine development was substantially above forecast.

Early in 1979, the 1350-level crusher was operating and the service shaft completed to the 1000 level. The main ventilation system can deliver 800,000 cfm. of heated air to the workings. Grades and tonnages projected from initial surface drilling have been confirmed by the detailed underground drilling completed at year end.

We are now deepening the service shaft. Shaft bottom at year end was slightly below the 1800-level station. Completion is projected for April 1980; we will then begin developing the 1800 and 2200 levels parallel to the ore

zone in preparation for diamond drilling on 100-foot cross-sectional spacing. In addition, six deeper holes will probe the 2600- to 3000-level zone. Intersections of earlier deep drilling from the 1000 level indicated good width and copper grades in this zone, and we have begun preliminary planning for a production shaft.

Mill performance was satisfactory. Copper concentrate grade remained at the 27% level attained in 1978, but zinc concentrate grade dropped due to the lower head grade in 1979.

Ten houses were constructed in Leaf Rapids in 1979. Construction of a subdivision containing 25 mobile homes will begin in 1980. When these units are ready the current housing shortage will be considerably eased.

### Fox Mine

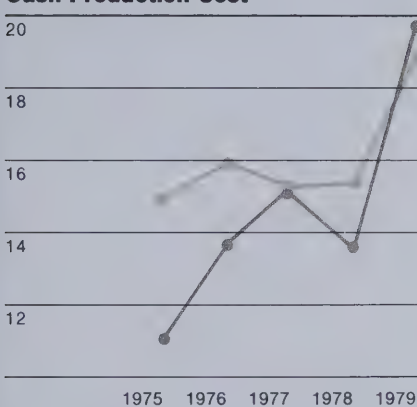
Tonnage mined and milled in 1979 was 852,000, approximately 88% of 1978 volume. This disappointing performance was primarily due to a three-week strike in June. Copper head grade was 9% lower than in 1978, while zinc heads slightly exceeded 1978 levels. Despite the decline in metal production, higher copper and precious metal prices together with a favourable exchange rate to exporters enabled Fox to make a profit in 1979.

Early in 1979, the decline was deepened to the 2480 level. At year end, we began further deepening toward the 2600 level. Development of the west lens stope is under way on the 2000 level, where we have identified mineable grades and volumes.

Our drilling for down-dip extension of the main ore zone from the 2480-level stations was inconclusive. However, all of the six holes drilled did penetrate the ore horizon, with the deepest intersection at the 4000 level. In 1980, we will continue this program; recent drilling indicates a grade improvement with depth.

On the surface, geophysical surveys and drilling continued in the area in 1979. Ten drill holes on a claim group near Fox intersected a potentially mineable zone

## Cash Production Cost



(\$ per ton milled)

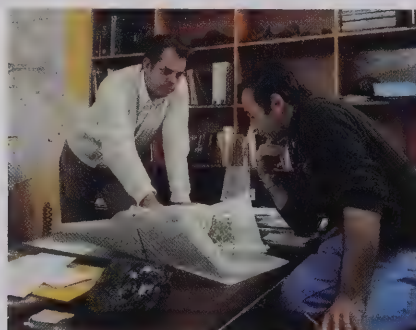
Ruttan	10.98	13.61	15.14	13.66	19.70
Fox	14.94	15.97	15.22	15.32	18.85

Production	1979	1978
Ruttan Mine		
Ore milled (tons)	2,308,000	2,543,000
% copper	1.39	1.17
% zinc	1.17	1.57
Copper contained in concentrate (lb.)	57,678,000	52,268,000
Zinc contained in concentrate (lb.)	37,320,000	62,276,000
Fox Mine		
Ore milled (tons)	852,000	964,000
% copper	1.19	1.31
% zinc	1.82	1.79
Copper contained in concentrate (lb.)	18,108,000	22,349,000
Zinc contained in concentrate (lb.)	23,097,000	25,206,000



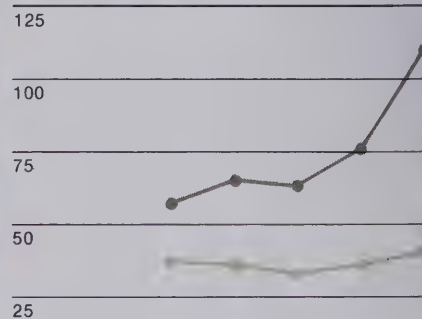


**Ian Plummer, mine manager, Fox Mine**  
**Eric DuRussel, mine superintendent**



**Joop Langelaar, chief exploration geologist**  
**Paul Pawliw, chief geophysicist, mining division**

**Average Price Received — Copper and Zinc**



	1975	1976	1977	1978	1979
(\$ per lb.)					
Copper	57	65	64	76	110
Zinc	37	36	33	36	41



containing copper and zinc. We plan to continue work on this claim group in 1980.

Our recovery of copper and zinc was as expected for the head grades treated in 1979. Process technique improvements included fine tuning of the copper regrind circuit and commissioning of an onstream analyzer process computer.

In 1979, Fox-Lynn operations won the Region Four Ryan Award for outstanding safety performance in 1978. For the second consecutive year, Fox Mine had the lowest accident frequency of any mine in the region — a record of which we are justifiably proud.

#### Exploration

Our exploration efforts for 1979 were mostly near the Fox and Ruttan properties. We also participated in a minor exploration program in northwestern Ontario.

Our basic approach to exploration is to do airborne geophysical surveys, followed by ground surveys and drilling in favourable geological areas. Our expenditures in 1979 were \$1,347,000, double those in 1978.

Our joint-venture projects were limited to northern Manitoba. Although interesting base-metal intersections have been made in drilling near Lynn Lake, nothing has yet been identified as commercially viable. Follow-up work is scheduled in this area during 1980.

Near year end, we signed an option agreement on the Agassiz gold property, approximately four miles northeast of Lynn Lake. Linecutting, surveying, and drilling are now under way. Given its proximity to the idle Lynn Lake concentrator and the current high prices for precious metals, the potential of this project appears to be good.

In 1979 we also signed an option agreement on the Cargill phosphate deposit near Kapuskasing, Ontario. Investigation of the potential of the property will continue over the next two years.

#### Markets

##### Copper

Free-world consumption of copper exceeded production by approximately 400,000 metric tons in 1979, bringing inventories back to normal levels by year end. This situation led to a stronger price for copper; LME average price was 90¢ U.S. per pound in 1979, compared with 62¢ in 1978 and 59¢ in 1977. Sherritt's average realized price for copper in 1979 was \$1.10 Cdn., compared with 76¢ in 1978.

From our mine production we sold 73,600,000 pounds of copper in 1979, compared with 72,400,000 pounds in 1978. These sales accounted for over 26% of the company's revenue in 1979.

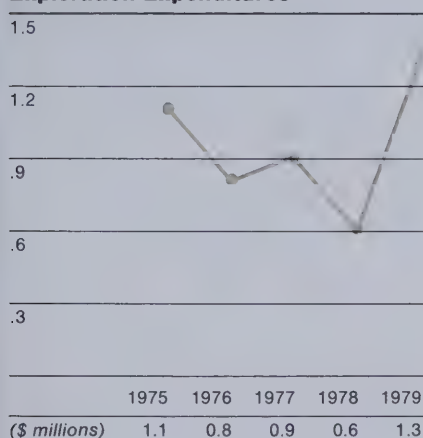
##### Zinc

European and North American refiners operated, on average, at 80% of capacity in 1979; year-end world inventories of zinc metal were relatively unchanged from 1978. Sherritt realized an average price of 41¢ Cdn. per pound of zinc sold in 1979, compared with 36¢ in 1978. Our sales of zinc metal in 1979 totalled 56,500,000 pounds, compared with 82,100,000 pounds in 1978; zinc accounted for nearly 8% of revenue for 1979.

##### Precious Metals

The majority of Sherritt's production of gold and silver is contained as by-products in the copper and zinc concentrates produced at our mines. The volume of precious metals sold in 1979 was somewhat lower than in 1978, but the sharp improvement in prices had a marked effect on our revenue and mine earnings. In 1979, precious metals accounted for over 5% of our revenue.

#### Exploration Expenditures



#### Ore Reserves

		1979			1978		
		Tons	% Copper	% Zinc	Tons	% Copper	% Zinc
Ruttan Mine (undiluted)							
Open Pit	911	1.57	1.24	2,601	1.43	1.64	
Underground							
to 1400 level	16,844	1.70	1.22	16,880	1.83	1.20	
1400 to 2000 level	9,290	1.82	1.09	9,290	1.82	1.09	
Total underground	26,134	1.74	1.17	26,170	1.82	1.16	
Total ore reserves	27,045	1.74	1.18	28,771	1.79	1.20	
Fox Mine (undiluted)							
Underground							
to 3000 level	5,917	1.77	2.21	6,333	1.79	2.22	

#### Mining Division Sales Revenue

		1979		1978	
Copper	73,645 lb.	\$ 80,799	72,391 lb.	\$ 55,045	
Zinc	56,518 lb.	23,388	82,113 lb.	29,161	
Precious metals					
Gold	17 oz.	7,669	18 oz.	4,542	
Silver	406 oz.	7,723	473 oz.	3,114	
		15,392		7,656	
Total		\$119,579		\$ 91,862	



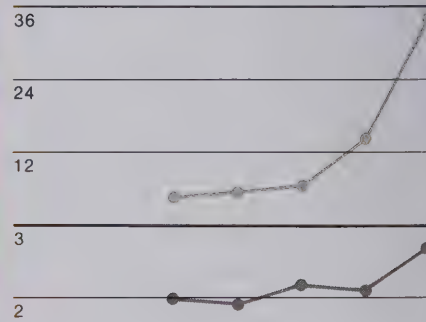


**Allan Lee, manager,  
fabricated metal  
products  
Neil Colvin, general  
manager, Alberta  
operations**



**Reg Toliver,  
superintendent,  
maintenance  
John Krupa,  
superintendent, metals  
Bud Kushnir, manager,  
production groups**

**Average Price Received —  
Nickel and Cobalt**



	1975	1976	1977	1978	1979
(\$ per lb.)					
■ Nickel	1.98	1.93	2.16	2.09	2.65
● Cobalt	4.02	4.41	6.21	13.59	34.35



## Operations

The nickel refinery at Fort Saskatchewan operated at slightly over 90% of rated capacity during 1979, the highest level since 1972. Production was 32,018,000 pounds, compared with 26,920,000 pounds in 1978. An ample supply of feed and a better-than-expected market demand contributed to this higher output. We expect this trend to continue and have scheduled refinery operations at close to full capacity in 1980.

Our production of cobalt set a new record of 1,333,000 pounds, some 16% higher than in 1978. We are continuing to increase our capacity for refining cobalt, and we anticipate reaching an annual capacity of 1,800,000 pounds by 1981.

Production of copper sulphide, a by-product of the nickel refinery, decreased by 30% to 1,042,000 pounds because of the lower copper content in our refinery feed materials.

A major milestone for the Alberta operations in 1979 was the 25th anniversary of the beginning of metal refining at our Fort Saskatchewan facilities. In September, employees, company officers, town

government officials and many other guests celebrated our silver anniversary in the Sports-Plex of the town of Fort Saskatchewan. To commemorate the first 25 years of co-operation and good will between Sherritt and Fort Saskatchewan, the company presented the town with a clock tower. This gift will be a focal point of the civic complex now under development.

## Markets

Free-world nickel consumption in 1979 showed an 8% increase over the 1978 level and totalled a record 595,000 metric tons. This increase in consumption, combined with the extended Inco Metals strike at Sudbury, contributed to a 100,000-ton reduction in free-world inventories, leaving a near normal inventory of 143,000 tons at year end.

Throughout 1979, nickel prices improved from less than \$2 U.S. per pound to a year-end price of over \$3 U.S. per pound. Both volume and price for Sherritt nickel sales were substantially higher in 1979 than in 1978; nickel represented 23% of our revenue in 1979.

The producer price of cobalt, established on February 1, 1979 at \$25 U.S. per pound, remained at this level throughout 1979. The free-market price peaked at about \$40 U.S., but by year end it had retreated to a small discount from the producer price. Because of the higher prices, a great deal of cobalt metal was recovered from scrap and other secondary sources, which helped to alleviate temporary shortfalls in primary metal. Zaire and Zambia together supply 70% of the free world's cobalt and this pre-eminent position is not likely to change over the short term.

While Sherritt's production of cobalt increased, much of the product was refined on a custom basis and returned to feed suppliers. As a result, Sherritt cobalt sales were substantially reduced in volume from the 1978 level, but higher prices and toll charges resulted in a net increase in revenue. Cobalt accounted for 7% of the company's revenue.

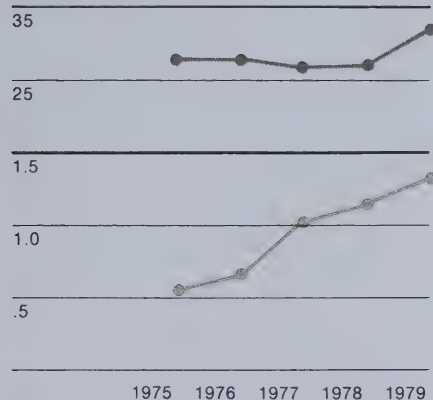
**Metal Refining**

**Fertilizers & Chemicals**

**Fabricated Metal Products**

**Technology**

## Refined Nickel and Cobalt Production



● Nickel (million lb.)	27.9	27.7	26.7	26.9	32.0
■ Cobalt (thousand lb.)	560	658	1,011	1,145	1,333

## Metal Refining Sales Revenue

(figures in thousands)	1979		1978	
Nickel	25,491 lb.	\$67,658	22,718 lb.	\$47,383
Cobalt	583 lb.	20,018	1,381 lb.	18,857
Copper, precious metals and custom refining		3,181		1,603
Total		\$90,857		\$67,843





**Gerry Livingston,**  
superintendent,  
chemicals  
**Ken Lamb,** production  
supervisor, phosphates  
**Jim Kilburn,**  
superintendent,  
fertilizers



**Jack Nichols,** manager,  
fertilizer marketing



**Al Otterdahl,** general  
manager, Thio-Pet  
Chemicals Ltd.  
**Mary Bell,** executive  
assistant, marketing  
**Joe Fraser,** vice-  
president, marketing



## Operations

The Sherritt fertilizer plants operated at full capacity throughout the year with only minor interruptions, including a maintenance shutdown in June. Production of all grades of fertilizers amounted to a record 396,000 tons. With continuing strong demand for fertilizer exceeding our present capacity, our year-end inventory was at its lowest point in years.

We are actively planning a substantial expansion of our production facilities for ammonia and urea. An independent market survey was prepared in 1979; early in 1980

detailed cost estimates on the expansion will be completed by an engineering contractor.

Meanwhile, in our existing fertilizer plants, we continued to implement improvements to maximize production and conserve energy; this program has been highly effective over the past three years.

Early in 1979 we renegotiated our existing contract for the supply of natural gas, establishing a secure source of this fuel and feed stock through to the end of 1983.

At Thio-Pet Chemicals Ltd., a subsidiary of Sherritt, production of hydrogen sulphide and carbon disulphide was lower than in 1978, due to some slackening in demand. Thio-Pet began trial-lot production and limited field testing of sodium-amyl xanthate, a product used by many mines in western Canada as a flotation reagent in ore concentrating mills.

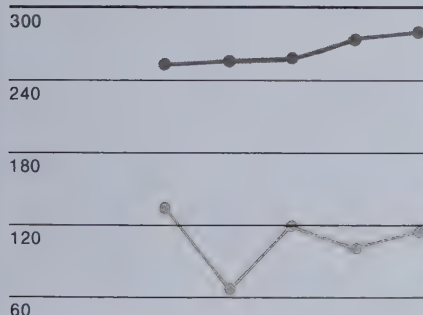
## Markets

Sales revenues for fertilizers reached a new record of \$53,457,000 in 1979, up 14% over 1978 and accounting for 18% of our revenue. The higher revenue enabled us to absorb substantial cost increases and still show an improved profit picture.

The market outlook for our fertilizers is very strong and we are having difficulty meeting all the requirements of our distributors and dealers with present production. We anticipate shortages of both nitrogen and phosphates for 1980.

Revenue from chemical sales was down 16% from 1978, largely because of increased internal demand for sulphuric acid and the loss by Thio-Pet of a substantial market in the United States for carbon disulphide.

## Fertilizer Production



	1975	1976	1977	1978	1979
(thousand tons)					
■ Nitrogen	252	257	265	275	279
■ Phosphates	133	65	120	103	117
Total	385	322	385	378	396

## Fertilizer and Chemical Sales Revenue

(figures in thousands)		1979		1978	
Fertilizers					
Nitrogen	314 tons	\$33,658	314 tons	\$29,484	
Phosphate	126 tons	19,799	134 tons	17,545	
	440 tons	53,457	448 tons	47,029	
Chemicals	18 tons	1,871	27 tons	2,218	
Total		\$55,328		\$49,247	

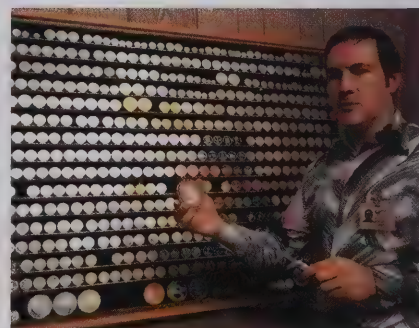




**Silver Workum,**  
production supervisor,  
metal strip  
**Earl Beaman,** quality  
control assistant



**Sharon Lax,** assistant  
corporate secretary  
**Rex Pearce,** marketing  
director, the Sherritt  
Mint



**Hank Baker,** production  
supervisor, the Sherritt  
Mint



## Operations

Total production of fabricated metal products reached a new record of 7,327,000 pounds, a 45% increase over 1978. The rolling mill operated at virtually full capacity during the year as a result of strong demand for nickel strip from the Royal Canadian Mint and for other nickel coinage products from our overseas customers. At year end, we were well advanced with installation of a fourth sintering furnace and expanded strip-finishing equipment, which will increase our sintering capacity for nickel strip by 33%. We produced Nickel-Bonded-Steel (N-B-S™) coinage blanks and coins for foreign markets. Because of the continuing demand for N-B-S coinage products, we are building a new \$5,500,000 N-B-S plant at Fort Saskatchewan, with an annual capacity of approximately 1,200 tons; production from the new plant is scheduled to start in mid-1981.

In April 1979 Sherritt acquired a 60% interest in Spectra-Flux, Inc. of Watsonville, California — a small company producing cobalt-samarium magnets. This company is now operating at a loss and we are analyzing its prospects for the future. We completed installation of a cobalt-samarium powder production facility at Fort Saskatchewan and introduced the new powder to the market.

## Markets

Revenue from all fabricated metal products set a new record of \$34,600,000, up 71% from 1978. This was due to increased shipments and higher metal prices. Fabricated metals accounted for over 11% of the company's revenue. Sales of nickel strip to the Royal Canadian Mint improved considerably as our share of this business increased. We shipped nickel coin blanks to the Netherlands and Hungary, and N-B-S coin blanks and coins to Colombia and Costa Rica. Additional orders for N-B-S have been received from Ecuador and Costa Rica, and several other countries have expressed serious interest in this attractive new coinage material.

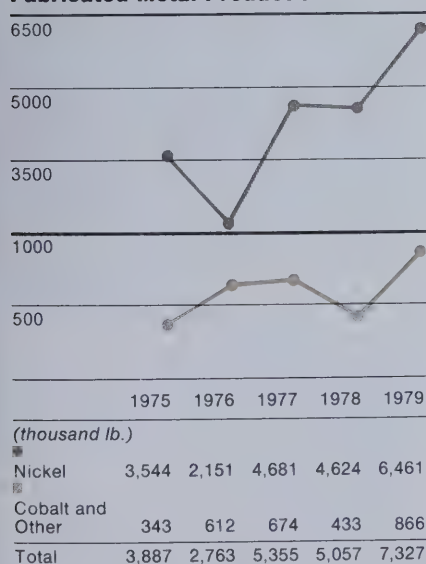
Sales of commemorative medallions and tokens showed continued growth and included a substantial order from Costa Rica for pure silver commemorative medallions. The Government of Alberta has chosen the Sherritt Mint to strike a silver medallion marking the 75th anniversary of the province.

Revenue from cobalt alloy strip was higher than in 1978 because of a modest growth in volume and a substantial price increase.

Our revenue from sales of specialty metal powders was 83% greater than in 1978. Although our shipments of dispersion-strengthened nickel alloy strip were low, orders received late in the year assure a return of this business to capacity levels in 1980.

Initial sales of cobalt-samarium alloy powder during the last quarter indicate that we have achieved market acceptance for this new product.

**Fabricated Metal Production**



**Fabricated Metal Products Sales Revenue**

(figures in thousands)		1979	1978
Nickel products	6,567 lb.	\$26,941	4,750 lb. \$16,470
Cobalt products	41 lb.	1,941	55 lb. 809
Alloy, composite and other metal products	802 lb.	5,702	584 lb.* 2,998 *
Total	7,410 lb.	\$34,584	5,389 lb. \$20,277

\*Figures restated to conform to the presentation adopted in 1979.





**Harry Anderson,**  
technologist  
**Basil Meddings,**  
manager, analytical  
services and quality  
control, Research Centre



**Herb Veltman,** director,  
Research Centre  
**Wasyi Kunda,** consultant



**Dennis Maschmeyer,**  
manager, projects and  
pilot operations  
**Martyn Day,** project  
manager  
**Geoff Dee,** project  
manager  
**Steve Romanchuk,**  
project manager



### Product Development

During 1979, we carried out a research program on cobalt-samarium alloy powder for permanent magnets as well as some supportive research for our newly acquired production facility, Spectra-Flux, Inc.

We continued our development work on composite powders to be used in higher temperature abradable seals for turbine engines. Small batches of one new product were produced to fill the first commercial orders.

We completed research on atomized powders for the production of nickel and alloy strip and applied the process in commercial production.

### Process Development

The Research Centre continued to concentrate on improving the efficiencies of our nickel and cobalt processes, especially those used in treating complex cobalt feed materials. This work benefits our metal refining operations at Fort Saskatchewan and increases the attractiveness of our processes to prospective licensees.

We provided assistance to Cominco Ltd. on detailed process engineering work in the first

commercial-scale application of pressure leaching for the treatment of zinc concentrate. Construction of this facility is progressing satisfactorily towards operation late in 1980.

A number of other zinc producers have also shown interest in the application of Sherritt's process for direct pressure leaching of zinc concentrates.

Toward the end of 1979 we completed work on the development of a new process for pressure leaching uranium ores for Key Lake Mining Corporation.

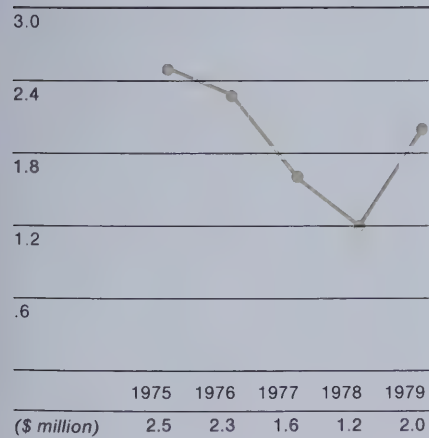
### Technology Licensing

Sherritt's 1979 revenues from technology licensing amounted to \$1,993,000, a substantial increase over 1978. Our engineering and projects groups continued to provide considerable assistance to clients in Canada and abroad.

During the year, Matthey Rustenburg Refiners (Pty.) Ltd. announced construction of a nickel refinery in South Africa that will produce 19,000 metric tons per year. Sherritt's pressure leaching process, adapted to the treatment of nickel-copper matte, will be used in this refinery. We concluded a licensing agreement and began development work during the year.

Production by Marinduque Mining & Industrial Corporation of nickel in the form of powder, briquettes and mixed nickel-cobalt sulphides amounted to 47,000,000 pounds — 63% of plant capacity, and 14% more than in 1978. Cobalt recovered in mixed sulphides was 3,000,000 pounds, 13% above 1978. Profit from the refining operation also showed an encouraging improvement, due largely to the increase in the price of cobalt, and to a lesser degree to the price of nickel, which increased towards the end of the year. However, the relentless increase in the price of fuel oil is adversely affecting profits. Marinduque is evaluating the possibility of using coal as a lower-cost alternative for ore drying and for steam and power generation.

### Technology Licensing Revenue





Early in 1979 Sherritt acquired an 18% equity in BowRio Resources Limited, a new Alberta oil and gas exploration company. We have a further option to increase our shareholdings to over 30% by the end of 1980. We also have a 30% interest in a joint venture exploration program in western Canada managed by BowRio. During the second half of 1979 this group drilled 15 exploratory wells in Alberta and British Columbia. Four wells were completed as shut-in gas wells and two as oil wells; nine were plugged and abandoned. The group purchased one gas well. In 1980 BowRio plans expenditures of about \$6,000,000 for the exploration program; Sherritt will maintain our 30% interest.

We have also taken a 20% interest in an exploration program operated by Forest Oil Corporation at Cutbank in northwestern Alberta. An 8200-foot well drilled on two crown sections acquired in August 1979 is currently being completed. In addition, we are in the process of finalizing an agreement for participation with Forest in a geophysical and drilling program in the Latonnell area, 30 miles northeast of Cutbank.

Sherritt's entry into oil and gas exploration in western Canada will, over time, at least partially offset the increasing cost of feedstock and fuel supplies for our Alberta operations. Natural gas supply is a critical factor in the future viability of Sherritt's metal and chemical division. Increased involvement in the oil and gas business represents a planned new direction for the company, both as a diversification move and as a prudent step to optimize future energy supply arrangements.

**Bob Topp, vice-president, corporate development**





In 1979, total employment at Sherritt increased by more than 5%, reflecting the generally higher level of activity in all areas. We continued to have recruiting difficulties, particularly in the professional, trade, and craft fields. The shortage of skilled people, together with higher-than-anticipated increases in the cost of living, necessitated a mid-year salary adjustment — the first since 1974. At year end we still had 77 unfilled positions in the mining division.

In both divisions, 1979 was a year for labour negotiations. At Fort Saskatchewan, management and union representatives negotiated an extension of the existing contract between the company and local 530 of the C.C.W.U. This agreement, which would have expired April 30, 1980, will now be in effect until April 30, 1981. The terms of the extension included a 4.5% wage increase effective October 1979 and a further 8% in May 1980. In addition, a dental plan for hourly paid employees was implemented on January 1, 1980.

Negotiations in the mining division took place throughout the spring of 1979. A 21-day strike by the membership of U.S.W.A. locals 5757 and 8144 concluded on June 22 with the ratification of a three-year agreement. The new agreement provides a minimum hourly base labour rate of \$8.40½ by June 1, 1981. Also, a non-contributory pension plan was introduced, covering all hourly rated employees in the division and replacing an optional contributory plan.

During 1978 management and union representatives had jointly described and evaluated all hourly rated jobs in the mining division. The revised job classifications were fully implemented by the beginning of 1979.

Safety and health concerns are always high priorities at Sherritt. In 1979 the safety department at Fort Saskatchewan acquired a new fire truck costing almost \$100,000. The new unit has a pumping capacity of more than 1,000 gallons per minute.

At the end of 1979 only one Sherritt employee remained on long-term assignment with Marinduque in the Philippines.



**Al Weir, general manager, personnel and industrial relations**  
**Bridget Prager, employee benefits administrator**  
**Ted Knight, manager, corporate personnel services**

<b>Personnel</b>	<b>1979</b>	<b>1978</b>
Manitoba	1,234	1,169
Alberta	974	924
Ontario	63	51
Other	6	13
<b>Total</b>	<b>2,277</b>	<b>2,157</b>



# Consolidated Balance Sheet

Sherritt Gordon Mines Limited  
(Under the Business  
Corporations Act, Ontario)

As at December 31, 1979  
(with 1978 figures for comparison)  
(thousands of dollars)

Assets		1979	1978
<b>Current</b>	Cash, including interest-bearing deposits	\$ 15,423	\$ 10,545
	Accounts receivable		
	Trade	68,417	39,799
	Other	1,032	485
	Inventories (note 2)	83,130	68,875
	Prepaid expenses	1,125	455
		169,127	120,159
<b>Fixed (note 3)</b>		125,270	121,707
<b>Other</b>	Investments (note 4)	10,515	10,115
	Employee housing and other loans	5,955	5,596
	Patents and non-producing assets at cost		
	less amounts written off	1,553	1,802
	Unamortized foreign exchange loss (note 6)	2,763	4,283
		20,786	21,796
		\$ 315,183	\$ 263,662
<b>Liabilities and Shareholders' Equity</b>			
<b>Current</b>	Bank indebtedness (note 5)	6,005	4,501
	Accounts payable	42,522	36,196
	Income and resource taxes	25,135	9,999
	Current portion of long-term debt	2,570	—
		76,232	50,696
<b>Long-term Debt (note 6)</b>		59,106	62,621
<b>Provision for Future Income and Resource Taxes</b>		36,449	32,686
<b>Shareholders' Equity</b>	Capital stock (note 7)	12,809	12,784
	Contributed surplus (note 7)	25,970	25,864
	Retained earnings	104,617	79,011
		143,396	117,659
		\$ 315,183	\$ 263,662

Approved by the Board:  
Edward L. Donegan, Director  
David D. Thomas, Director

The accompanying notes are an integral  
part of the financial statements



# Consolidated Statement of Earnings

Sherritt Gordon Mines Limited

for the year ended December 31, 1979  
(with 1978 figures for comparison)  
(thousands of dollars)

		1979	1978
<b>Revenue</b>	Metal sales	\$ 245,020	\$ 179,982
	Fertilizer and chemical sales	55,328	49,247
	Technology licensing, interest and other income	4,226	2,150
		304,574	231,379
<b>Costs and Expenses</b>	Operating costs	212,635	180,337
	Technology	(883)	808
	Resource exploration		
	Minerals	1,347	596
	Oil and gas	314	—
	Selling and administration	5,457	4,536
	Interest	4,842	3,740
	Depreciation and amortization	12,043	11,824
	Foreign exchange loss – net	698	934
		236,453	202,775
<b>Earnings before Taxes</b>		68,121	28,604
<b>Income and Resource Taxes (note 8)</b>	Current	23,392	8,513
	Future	3,763	5,666
		27,155	14,179
<b>Net Earnings</b>		\$ 40,966	\$ 14,425
<b>Earnings per Share</b>		\$ 3.20	\$ 1.13
<b>Dividends per Share</b>		\$ 1.20	\$ .50

# Consolidated Statement of Retained Earnings

for the year ended December 31, 1979  
(with 1978 figures for comparison)  
(thousands of dollars)

		1979	1978
	Balance at beginning of the year	\$ 79,011	\$ 70,978
	Net earnings	40,966	14,425
		119,977	85,403
	Dividends	15,360	6,392
	Balance at end of the year	\$ 104,617	\$ 79,011

The accompanying notes are an integral part of the financial statements



# Consolidated Statement of Changes in Financial Position

Sherritt Gordon Mines Limited

for the year ended December 31, 1979  
(with 1978 figures for comparison)  
(thousands of dollars)

		1979	1978
<b>Working capital was obtained from</b>	Operations for the year		
	Net earnings	\$ 40,966	\$ 14,425
	Items not affecting working capital		
	Depreciation and amortization	12,043	11,329
	Future income and resource taxes	3,763	5,666
	Foreign exchange loss (note 6)	574	1,063
		57,346	32,483
	Issue of capital	131	90
		57,477	32,573
<b>Working capital was used for</b>	Expenditures on capital and deferred assets		
	Mining	11,046	23,204
	Metal refining	1,107	699
	Fabricated metals	528	136
	Fertilizers and chemicals	1,829	2,264
	Oil and gas	991	—
	Investments	400	(222)
	Employee housing and other loans	359	820
	Patents and non-producing assets	(145)	(9)
		16,115	26,892
	Dividends	15,360	6,392
	Reduction of long-term debt	2,570	—
		34,045	33,284
<b>Increase (Decrease) in working capital</b>		23,432	(711)
<b>Working capital at beginning of the year</b>		69,463	70,174
<b>Working capital at end of the year</b>		\$ 92,895	\$ 69,463

The accompanying notes are an integral  
part of the financial statements



# Notes to Consolidated Financial Statements

Sherritt Gordon Mines Limited

December 31, 1979

## 1. Summary of Significant Accounting Policies

### a) Presentation of Financial Statements

The consolidated financial statements include the accounts of Sherritt Gordon Mines Limited and its active subsidiary companies.

### b) Translation of Foreign Currencies

Transactions in foreign currencies are translated into Canadian dollars at rates prevailing at the time of such transactions, except that current assets, current liabilities and long-term debt are translated at the rate of exchange at year end.

### c) Revenue Recognition

Revenue from metals contained in mine concentrates are recognized in the month of production and are subject to adjustment on, or prior to, settlement to reflect changes in settlement quantities and metal market prices. Revenue from other products is recognized at the time of shipment.

### d) Inventory Valuation

Mine production is valued at estimated net realizable value. Other finished products, raw materials, materials in process, and operating supplies are valued at the lower of average cost and net realizable value.

### e) Exploration and Development Costs

Minerals — Costs of exploring for new ore occurrences are charged to earnings in the period in which they are incurred.

Development costs relating to a new ore occurrence are deferred until production commences after which only development costs of a capital nature are deferred.

Oil and gas — Costs of exploring for oil and gas are accounted for using the successful efforts method under which those costs resulting directly in identifiable future benefits through the discovery, acquisition or development of specific reserves are deferred. Costs that do not provide identifiable future benefits are charged to earnings either as incurred or at the time the costs are determined to be non-productive.

### f) Depreciation and Amortization

Depreciation of plant and equipment costs and amortization of development costs and patents are charged to earnings as follows:

- (i) Mining: depreciation and amortization of the assets of the mines are charged to operations using the unit of production method based on metallic content of the estimated recoverable ore reserves.
- (ii) Metal refining, fabricated metals, fertilizers and chemicals: depreciation is provided on a straight-line basis over the estimated useful lives of the assets.
- (iii) Patents: amortization is provided on a straight-line basis over the lives of the patents.

### g) Income and Resource Taxes

The company follows the tax allocation method of providing for income and resource taxes.

Taxable income may be different from reported earnings before taxes principally because capital cost allowances and development expenditures claimed for tax purposes differ from depreciation and amortization recorded. The difference between the taxes calculated as payable each year and those charged against earnings on

the tax allocation method is accumulated and carried forward in the balance sheet under the heading Provision for Future Income and Resource Taxes.

In 1979 the company changed its method of accounting for resource taxes from the cash method to the tax allocation method. The effect of this change in accounting policy, which has been applied retroactively, is described in Note 14 to these financial statements.

## 2. Inventories (thousands of dollars)

	1979	1978
Concentrates	\$23,740	\$13,927
Refined metal products	25,062	21,934
Fertilizers and chemicals	2,645	2,720
Raw materials and materials in process	21,409	21,098
Operating supplies	10,274	9,196
	\$83,130	\$68,875

## 3. Fixed Assets (thousands of dollars)

	Property, plant and equipment		Unamortized development costs	Total
	Cost	Depreciation		
Mining	\$ 85,742	\$28,047	\$57,695	\$ 93,162
Metal refining	31,889	26,137	5,752	5,752
Fabricated metals	7,919	4,054	3,865	3,865
Fertilizers and chemicals	58,794	37,294	21,500	21,500
Oil and gas	—	—	991	991
1979	\$184,344	\$95,532	\$36,458	\$125,270
1978	\$175,043	\$87,778	\$34,442	\$121,707

## 4. Investments (thousands of dollars)

	Common shares	Percentage owned	1979	1978
Marinduque Mining & Industrial Corporation	9,414,877	11	\$ 6,752	\$ 6,752
P.T. Pacific Nikkel Indonesia	33,747	8	3,314	3,314
BowRio Resources Limited	400,000	18	400	—
Other companies			49	49
			\$10,515	\$10,115

The investments in Marinduque Mining & Industrial Corporation and P.T. Pacific Nikkel Indonesia are considered to be of a long-term nature and are valued on the basis of historical cost.

The quoted market value of the investment in Marinduque shares at December 31, 1979 was \$13,060,000 (1978: \$8,375,000). Nickel and copper production comprise the bulk of this company's business.

There is no quoted value for shares of P.T. Pacific Nikkel Indonesia. The company was formed to evaluate the potential for development of a nickel orebody in Indonesia. This evaluation is continuing, but no decision has been taken to bring the orebody into production. Sherritt discontinued additional financial participation in 1974 and its equity participation has been diluted as a result of continued financial support by the other shareholders since that time.

The investment in BowRio Resources Limited, a Calgary-based oil and gas exploration company, is carried at cost. The company has an option to purchase an additional 13% equity interest at a cost of \$400,000.

## 5. Bank Indebtedness

Certain receivables and inventories of the company have been pledged as security for bank indebtedness.



**6. Long-term Debt**

Income debentures (thousands of dollars)

	U.S.	Cdn.
Current	\$ 2,200	\$ 2,570
Long-term	50,600	59,106
	\$52,800	\$61,676

*Interest* — varies with the rate of interest charged by the lender for U.S. dollar loans made to its prime commercial borrowers. At December 31, 1979 this rate was 9.1%. Interest for the year ended December 31, 1979 amounts to \$4,785,000 (1978: \$3,680,000) and is not an allowable deduction for income tax purposes.

*Repayment* — in 28 quarterly payments of \$1,100,000 U.S. commencing September 30, 1980 with the balance due September 30, 1987. There is a requirement for additional principal repayments, commencing June 30, 1981, when profits are above a minimum cumulative level. The debentures may be

repaid at any time without penalty, can be converted to Canadian funds or to term notes, and are secured by a fixed charge on Ruttan Mine and a floating charge on all other assets of the company.

The carrying value of long-term debt is determined using the rate of exchange at year end. The unrealized loss on exchange is being amortized over the life of the debt of which \$574,000 (1978: \$1,063,000) has been included in the determination of earnings for the year ended December 31, 1979 and the unamortized balance of \$2,763,000 (1978: \$4,283,000) is carried forward as a deferred charge.

**7. Capital Stock and Contributed Surplus**

Shares authorized and issued

Authorized

14,000,000 common shares, par value \$1 each

	Number of shares	Amount (thousands)
Issued and fully paid		
January 1, 1979	12,783,790	\$12,784
Issued for cash	25,315	25
December 31, 1979	12,809,105	\$12,809

Effective May 7, 1979 the articles of the company were amended to reclassify the 14,000,000 authorized Class A and Class B participating special shares with a par value of \$1 per share into a single class of an equal number of authorized common shares with a par value of \$1 per share, and to decrease the authorized capital by cancelling the 100 authorized common shares with a par value of

\$10 per share, none of which was outstanding.

During 1979, 25,315 shares were issued under the Employee Share Purchase Plan for a cash consideration of \$131,000 or \$5.20 per share. The par value of these shares of \$25,000 has been credited to capital stock and the balance of the consideration of \$106,000 to contributed surplus.

**8. Income and Resource Taxes**

Income and resource taxes charged against earnings reflect a number of adjustments to the statutory rates of taxes payable as follows:

	Percentage of earnings before taxes	
	1979	1978
Combined federal and provincial income tax rate	49.5%	49.5%
Non-deductible income debenture costs	3.9	8.2
Resource allowance	(5.8)	(1.3)
Depletion	(6.8)	(4.6)
Other deductions and allowances	(4.0)	(6.7)
Effective federal and provincial income tax rate	36.8%	45.1%
Resource taxes — 18% of mining income	3.1	4.5
Effective income and resource tax rate	39.9%	49.6%

**9. Pension Plans**

The company maintains pension plans for salaried and hourly paid employees.

Annual pension costs determined at regular intervals by independent actuaries are funded currently and include provision for current service costs and for funding of past service costs over a period not exceeding 15 years. The total cost of employee pension plans charged against earnings for the year ended December 31, 1979 amounted to \$1,211,000 (1978: \$1,414,000).

At December 31, 1979 unfunded liabilities for past service costs under these pension plans amounted to \$2,065,000 (1978: \$2,260,000).

**10. Employee Share Purchase Plan**

Under the Employee Share Purchase Plan, eligible employees are entitled to subscribe for shares of the company and to pay for such shares by payroll deduction over a period of 24 months at a price per share equal to the lesser of the average market price on the original offering date (June 19, 1978 and June 18, 1979) or the average market price on the completion date of purchase. At December 31, 1979, there were outstanding purchase arrangements with employees having an aggregate value of \$340,000 (1978: \$265,000).

**11. Commitments and Guarantees***Lease Commitments*

The company is committed to payments under operating leases for equipment and business premises through to 1989 in the amount of approximately \$6,800,000. Annual commitments for the next five years are as follows:

1980	\$1,670,000
1981	1,430,000
1982	940,000
1983	670,000
1984	610,000

*Townsites and Government*

Certain expenditures incurred by the Province of Manitoba and the Local Government Districts of Leaf Rapids and Lynn Lake for



the development of the townsites and certain provincial highways are being amortized over periods up to 1995 through charges to the company of approximately \$695,000 annually in addition to normal municipal taxes. The company has guaranteed the repayment of the debts incurred on account of these expenditures, which obligations total \$8,100,000 at December 31, 1979.

The company has also guaranteed employees' mortgage indebtedness in these townsites amounting to approximately \$5,400,000 at December 31, 1979.

#### *Manitoba Hydro*

Under agreement with Manitoba Hydro for the supply of power, the cost (incurred by Manitoba Hydro) of certain transmission lines to the company's mining properties is being paid by the company over periods up to the year 2013. The balance to be paid under this agreement amounts to \$2,000,000 at December 31, 1979.

#### **12. Remuneration of Directors and Officers**

In 1979 the direct remuneration of directors and senior officers of the company was \$768,000 (1978: \$582,000).

#### **13. Quarterly Financial Information**

(unaudited)

(thousands of dollars except earnings per share)

	First quarter	Second quarter	Third quarter	Fourth quarter	Year
1979					
Revenue	\$ 72,340	\$ 79,884	\$ 58,358	\$ 93,992	\$ 304,574
Earnings before taxes	15,028	16,342	14,991	21,760	68,121
Net earnings	8,269	9,373	9,507	13,817	40,966
Earnings per share	\$ .65	\$ .73	\$ .74	\$ 1.08	\$ 3.20
1978					
Revenue	\$ 60,223	\$ 60,592	\$ 48,970	\$ 61,594	\$ 231,379
Earnings before taxes	4,349	6,039	6,666	11,550	28,604
Net earnings	2,497	3,750	3,022	5,156	14,425
Earnings per share	\$ .20	\$ .29	\$ .24	\$ .40	\$ 1.13

Quarterly financial information is restated to reflect the change made in the method of accounting for resource taxes.

#### **14. Comparative Figures**

Comparative figures for 1978 have been adjusted to reflect the retroactive change made in 1979 in the method of accounting for resource taxes from the cash method to the tax allocation method. The effect of the change is to reduce earnings in 1979 by \$2,134,000 (17¢ per share) and in 1978 by \$1,275,000 (10¢ per share).

To the Shareholders of  
Sherritt Gordon Mines Limited:

We have examined the consolidated balance sheet of Sherritt Gordon Mines Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in the method of accounting for resource taxes referred to in Note 1 to the consolidated financial statements.

Deloitte Haskins & Sells  
Chartered Accountants

Toronto, Ontario  
February 1, 1980

# Ten-year Record 1970-1979

Sherritt Gordon Mines Limited

(figures in thousands except share prices and per share figures)

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
<b>Operating Information</b>										
<b>Ore Milled (tons)</b>										
Ruttan Mine	2,308	2,543	2,487	2,661	3,341	3,358	1,871	—	—	—
Fox Mine	852	964	890	832	1,007	1,008	963	946	1,022	389
Lynn Lake Mine	—	—	—	197	352	432	676	995	1,158	1,090
<b>Production</b>										
Copper (lb.)	74,687	73,895	75,489	76,009	87,005	100,399	72,101	41,474	60,534	30,816
Zinc (lb.)	52,959	74,695	87,477	95,369	99,953	79,102	48,380	8,986	9,605	163
Gold (oz.)	17	19	21	22	25	29	16	9	14	6
Silver (oz.)	406	473	479	484	555	749	416	231	398	147
Nickel (lb.)	32,018	26,920	26,688	27,708	27,937	26,172	30,262	37,321	33,111	35,918
Cobalt (lb.)	1,333	1,145	1,011	658	560	410	616	809	561	803
Fabricated metals (lb.)	7,327	5,057	5,355	2,763	3,887	4,455	4,087	3,393	3,178	2,849
Fertilizers (tons)	396	378*	385	322	385	349	362	372	327	280
<b>Financial Information</b>										
Revenue from sales	\$300,348	\$229,229	\$180,463	\$179,428	\$191,479	\$192,958	\$124,092	\$ 72,861	\$ 73,958	\$ 90,889
Technology licensing, interest and other income	4,226	2,150	1,929	3,634	3,873	2,128	941	1,365	1,464	1,420
Costs and expenses	\$224,410	\$190,951	\$165,240	\$166,086	\$166,787	\$141,934	\$ 92,128	\$ 61,517	\$ 60,798	\$ 55,760
Depreciation and amortization	12,043	11,824	10,759	9,680	10,017	12,571	9,234	7,563	7,852	6,048
Income and resource taxes	27,155	14,179*	2,227	3,165	7,390	17,535	2,685	55	(1,995)	13,000
Net earnings before extraordinary items	\$ 40,966	\$ 14,425*	\$ 4,166	\$ 4,131	\$ 11,158	\$ 23,046	\$ 20,986	\$ 5,091	\$ 8,767	\$ 17,501
Per Share	3.20	1.13*	.33	.32	.88	1.81	1.65	.40	.73	1.54
Extraordinary items	—	—	—	—	—	—	—	2,784	1,270	1,658
Net earnings	40,966	14,425*	4,166	4,131	11,158	23,046	20,986	2,307	7,497	15,843
Per Share	3.20	1.13*	.33	.32	.88	1.81	1.65	.18	.62	1.39
Dividends	15,360	6,392	1,915	4,460	7,010	9,555	8,918	6,370	7,231	6,818
Per share	1.20	.50	.15	.35	.55	.75	.70	.50	.60	.60
Capital Expenditures	16,115	26,892	14,176	6,180	11,513	14,527	20,791	30,963	11,737	12,795
Cash flow from operations	57,346	32,483	15,509	14,605	25,156	45,519	29,383	12,570	16,006	25,235
Working capital	92,895	69,463	70,174	38,140	38,472	36,409	24,779	27,375	28,968	19,365
Long-term debt	59,106	62,621	57,764	24,731	29,564	34,194	41,881	36,333	13,196	17,788
Shareholders' equity	143,396	117,659*	109,536	107,213	107,437	103,289	89,798	77,730	81,793	65,048
Invested capital	238,951	212,966	193,857	158,438	163,145	159,935	144,403	127,306	110,759	100,036
Return on shareholders' equity*†	31.4%	12.7%	3.8%	3.8%	10.6%	23.9%	25.1%	6.4%	11.9%	28.9%
Return on invested capital†	20.2%	8.9%	3.2%	3.7%	8.2%	16.8%	16.5%	4.7%	9.1%	18.8%
Share price — high	\$ 14.13	\$ 8.75	\$ 6.88	\$ 8.25	\$ 7.88	\$ 15.63	\$ 19.50	\$ 17.00	\$ 21.75	\$ 25.00
— low	\$ 7.75	\$ 4.30	\$ 4.05	\$ 5.00	\$ 4.80	\$ 4.10	\$ 13.00	\$ 12.00	\$ 10.50	\$ 13.25
<b>Ore Reserves</b>										
<b>Ruttan Mine</b>										
Tons	27,045	28,771	30,439	32,047	43,600	45,900	49,100	51,000	51,000	51,000
%Copper	1.74	1.79	1.74	1.73	1.45	1.45	1.46	1.47	1.47	1.47
%Zinc	1.18	1.20	1.25	1.25	1.45	1.52	1.60	1.61	1.61	1.61
<b>Fox Mine</b>										
Tons	5,917	6,333	7,093	7,836	8,700	10,700	11,800	13,300	14,500	13,100
%Copper	1.77	1.79	1.83	1.95	1.92	1.95	2.03	2.01	1.99	1.84
%Zinc	2.21	2.22	2.12	2.10	2.08	2.07	2.15	2.23	2.35	2.70

\* figures restated to conform to the presentation adopted in 1979.

† Returns are calculated on average shareholders' equity and average invested capital. Return on invested capital is calculated on net earnings adjusted for interest on long-term debt.



# Operations Management

## Ontario

### Corporate Office

P.O. Box 28, Commerce Court West  
Toronto, Ontario M5L 1B1  
Telephone: (416) 363-9241  
Telex: 06-22195  
Cable: SHERONTO

### Marketing

R. M. Garvey  
Manager, Metal Marketing

### The Sherritt Mint

Rex F. Pearce  
Marketing Director

### Mining Exploration

G. M. Hughes  
Manager, Mineral Resource Development

J. Dennis Sweany  
Geophysical Field Officer  
Box 723  
Dryden, Ontario P8N 2Z4  
Telephone: (807) 223-5880

## Manitoba

### Mining and Milling Division

Lynn Lake, Manitoba R0B 0W0  
Telephone: (204) 356-2201  
Telex: 076-6220

J. A. MacLellan  
General Manager  
Manitoba Operations

Eric Cunningham  
Manager of Engineering & Development

### Operating Mines

Fox - Lynn Lake, Manitoba R0B 0W0

I. M. Plummer  
Manager, Fox Operations  
Telephone: (204) 356-2403

Ruttan - Leaf Rapids, Manitoba R0B 1W0

R. C. McCombe  
Manager, Ruttan Operations  
Telephone: (204) 473-2415

### Exploration

Lynn Lake, Manitoba R0B 0W0

Joop Langelaar  
Chief Exploration Officer

## Alberta

### Metal & Chemical Division

Fort Saskatchewan, Alberta T8L 2P2  
Telephone: (403) 998-6911  
Telex: 037-2290

Neil Colvin  
General Manager, Alberta Operations

B. W. Kushnir  
Manager, Production Groups

A. H. Lee  
Manager, Fabricated Metal Products

A. C. Oliver  
Manager, Administration

D. G. Maschmeyer  
Manager, Projects and Pilot Operations

J. W. Gulyas  
Manager, Engineering & Planning

### Research Centre

Fort Saskatchewan, Alberta T8L 2P2

Herb Veltman  
Director

M. A. Clegg  
Manager, New Product Research

D. R. Weir  
Manager, Process Research

### Marketing

1313 Toronto-Dominion Tower  
Edmonton Centre  
Edmonton, Alberta T5J 2Z1  
Telephone: (403) 426-3550  
Telex: 037-2768

J. A. Fraser  
Vice-president, Marketing

J. M. Nichols  
Manager, Fertilizer Marketing

### Subsidiaries

Sherritt Fertilizers, Inc.  
3030 S.W. First Avenue  
Portland, Oregon 97201, U.S.A.  
Telephone: (503) 226-3758  
Telex: 36-0149

W. R. Chorlton  
Vice-president and General Manager

Thio-Pet Chemicals Ltd.  
1313 Toronto-Dominion Tower  
Edmonton Centre  
Edmonton, Alberta T5J 2Z1  
Telephone: (403) 426-1093  
Telex: 037-2768

A. R. Otterdahl  
General Manager



**Ken Harvey, vice-president, finance**  
**Peter Bleach, controller**



**Doc Gallie, assistant to the president**  
**Lynn Todd, director of corporate communications**



**Vladimir Mackiw, executive vice-president**  
**Bob Lindberg, vice-president, mining**



**Ian Shaw, treasurer**  
**Dave Kinnear, manager, taxation**  
**Andy Montano, manager, corporate audit**

# Directors and Officers

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## Directors

W. E. P. DeRoche  
Chairman of the Board  
Partner, Blake, Cassels & Graydon

\*†Edward L. Donegan  
Partner, Blake, Cassels & Graydon

W. A. Humphrey  
Vice-president, Operations  
Newmont Mining Corporation

Robert D. Lindberg  
Vice-president, Mining

V. N. Mackiw  
Executive Vice-president

Plato Malozemoff  
Chairman of the Board and  
Chief Executive Officer  
Newmont Mining Corporation

†J. H. Parliament  
President  
Newmont Mines Limited

\*David D. Thomas  
President and  
Chief Executive Officer

\*†J. E. Thompson  
President  
Newmont Mining Corporation

\*Audit Committee Members

†Compensation Committee Members

## Officers

W. E. P. DeRoche  
Chairman of the Board

David D. Thomas  
President and Chief Executive Officer

V. N. Mackiw  
Executive Vice-president

J. A. Fraser  
Vice-president, Marketing

Kenneth J. Harvey  
Vice-president, Finance

Robert D. Lindberg  
Vice-president, Mining

Robert R. Topp  
Vice-president, Corporate Development

Alan E. Gallie  
Assistant to the President

Frank I. Piper  
Corporate Secretary

Sharon M. Lax  
Assistant Corporate Secretary

Ian A. Shaw  
Treasurer

Peter S. Bleach  
Controller



## Auditors

Deloitte Haskins & Sells, Toronto

## Solicitors

Blake, Cassels & Graydon, Toronto

## Transfer Agents

Canada Permanent Trust Company,  
Canada  
Morgan Guaranty Trust Company  
of New York

## Bankers

Canadian Imperial Bank of Commerce,  
Toronto  
Morgan Guaranty Trust Company  
of New York

## Listing

Toronto Stock Exchange







